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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2018 / 2019

BFN2224- FINANCIAL MARKETS & INSTITUTIONS

(All Sections / Groups)

27 May 2019
(9.00am-11.00am)
(2 hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with 4 questions.
2. Answer **ALL** questions and the distribution of the marks for each question is given.
3. Please write all your answers in the **Answer Book** provided.

Question 1 (25 Marks)

- a) Explain the roles of Bank Negara Malaysia (BNM). (15 marks)
- b) Central banks play a crucial role in ensuring economic and financial stability. They conduct monetary policy to achieve low and stable inflation. Central banks conduct monetary policy by adjusting the supply of money, generally through open market operations (OMO). What is open market operations and how do open market operations affect the money supply? (10 marks)

Question 2 (25 Marks)

- a) What is the term structure of interest rates and what determines its shape? (5 Marks)
- b) Explain the three factors that affecting risk structure of interest rates. (5 Marks)
- c) Consider the two bonds described below:

	Bond A	Bond B
Maturity	15 yrs	20 yrs
Coupon Rate (Paid semiannually)	10%	6%
Par Value	RM1,000	RM1,000

- i. If both bonds had a required return of 8%, what would the bonds' prices be? (5 Marks)
- ii. Describe what it means if a bond sells at a discount, a premium, and at its face amount (par value). Are these two bonds selling at a discount, premium, or par? (5 Marks)
- iii. If the required return on the two bonds rose to 10%, what would the bonds' prices be? (5 Marks)

Question 3 (25 Marks)

- a) Explain what triggered the global financial crisis of 2007 – 2009. Describe the situation where banks were reluctant to lend to the public which deteriorated the economy further. (15 Marks)

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b) Describe two (2) similarities and two (2) differences between the U.S. experiences during the Great Depression and those during the global financial crisis of 2007-2009.

(10 marks)

Question 4 (25 Marks)

a) What are the roles of financial market? **(6 marks)**

b) Explain three (3) reasons for Initial Public Offering (IPO). **(6 marks)**

c) Define Venture Capital. **(3 marks)**

d) Discuss the advantages and disadvantages of venture capital. **(10 marks)**

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